Essentials of

Services Marketing

3rd Edition

14 Improving Service QUALITY AND PRODUCTIVITY

WIRTZ LOVELOCK

Learning Objectives

14.1 Explain the relationships between service quality, productivity, and profitability.

14.2 Be familiar with the different perspectives of service quality.

14.3 Demonstrate how to use the Gaps Model for diagnosing and addressing service quality problems.

14.4 Differentiate between hard and soft measures of service quality.

14.5 Explain the common objectives of effective customer feedback systems.

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Learning Objectives

14.6 Describe key customer feedback collection tools.

14.7 Be familiar with hard measures of service quality and control charts.

14.8 Select suitable tools to analyze service problems. 14.9 Understand return on quality and determine the optimal level of reliability.

14.10 Define and measure service productivity.

14.11 Understand the difference between productivity, efficiency, and effectiveness.

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Learning Objectives

14.12 Recommend the key methods to improve service productivity.

14.13 Know how productivity improvements impact quality and value.

14.14 Understand how to integrate all the tools to improve the quality and productivity of customer service processes.

14.15 Explain how TQM, ISO 9000, Six Sigma, and the Malcolm Baldrige and EFQM approaches relate to managing and improving service quality and productivity.

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Improving Service Quality and Productivity

14.1

Explain the relationships between service quality, productivity, and profitability.

Service quality, productivity, and profitability

IMPROVING SERVICE QUALITY AND PRODUCTIVITY

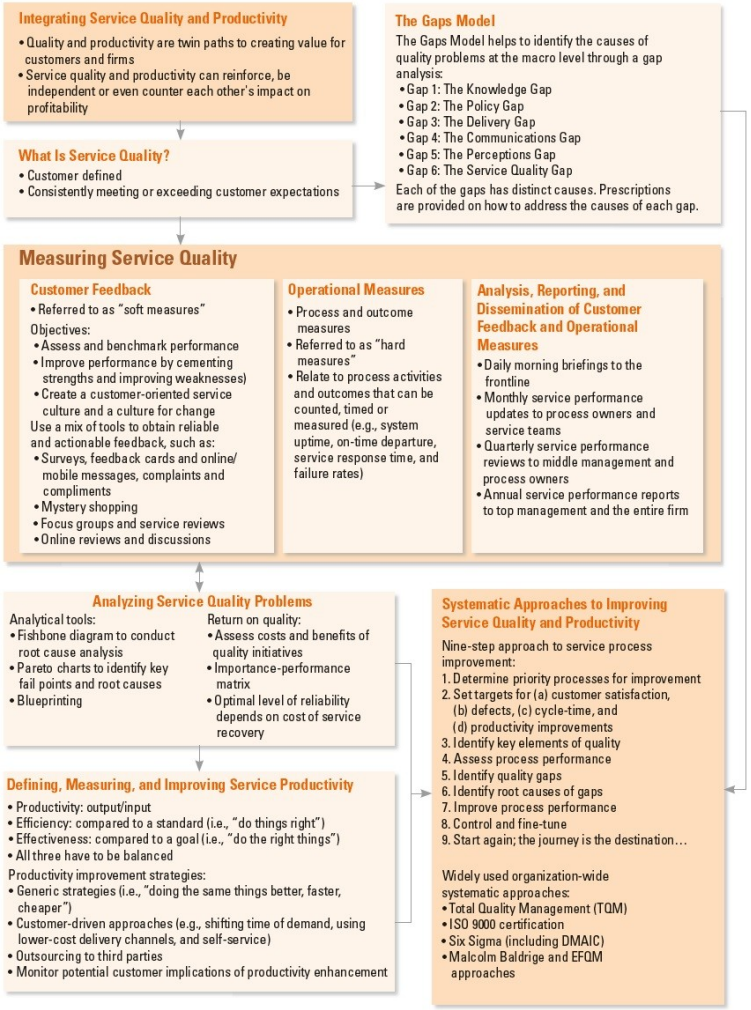
Integrating Service Quality and Productivity
• Quality and productivity are twin paths to creating value for customers and firms
• Service quality and productivity can reinforce, be independent or even counter each other's impact on profitability
What Is Service Quality?
• Customer defined
• Consistently meeting or exceeding customer expectations
The Gaps Model
The Gaps Model helps to identify the causes of quality problems at the macro level through a gap analysis:
• Gap 1: The Knowledge Gap
• Gap 2: The Policy Gap
• Gap 3: The Delivery Gap
• Gap 4: The Communications Gap
• Gap 5: The Perceptions Gap
• Gap 6: The Service Quality Gap
Each of the gaps has distinct causes. Prescriptions are provided on how to address the causes of each gap.
Measuring Service Quality
Customer Feedback
• Referred to as "soft measures"
Objectives:
• Assess and benchmark performance
• Improve performance by cementing strengths and improving weaknesses)
• Create a customer-oriented service culture and a culture for change
Use a mix of tools to obtain reliable and actionable feedback, such as:
• Surveys, feedback cards and online/ mobile messages, complaints and compliments
• Mystery shopping
• Focus groups and service reviews
• Online reviews and discussions
Operational Measures
• Process and outcome measures
• Referred to as "hard measures"
• Relate to process activities and outcomes that can be counted, timed or measured (e.g., system uptime, on-time departure, service response time, and failure rates)
Analysis, Reporting, and Dissemination of Customer Feedback and Operational Measures
• Daily morning briefings to the frontline
• Monthly service performance updates to process owners and service teams
• Quarterly service performance reviews to middle management and process owners
• Annual service performance reports to top management and the entire firm
Analyzing Service Quality Problems
Analytical tools:
• Fishbone diagram to conduct root cause analysis
• Pareto charts to identify key fail points and root causes
• Blueprinting
Return on quality:
• Assess costs and benefits of quality initiatives
• Importance-performance matrix
• Optimal level of reliability depends on cost of service recovery
Defining, Measuring, and Improving Service Productivity
• Productivity: output/input
• Efficiency: compared to a standard (i.e., "do things right")
• Effectiveness: compared to a goal (i.e., "do the right things")
• All three have to be balanced
Productivity improvement strategies:
• Generic strategies (i.e., "doing the same things better, faster, cheaper")
• Customer-driven approaches (e.g., shifting time of demand, using lower-cost delivery channels, and self-service)
• Outsourcing to third parties
• Monitor potential customer implications of productivity enhancement
Systematic Approaches to Improving Service Quality and Productivity
Nine-step approach to service process improvement:
1. Determine priority processes for improvement
2. Set targets for (a) customer satisfaction, (b) defects, (c) cycle-time, and (d) productivity improvements
3. Identify key elements of quality
4. Assess process performance
5. Identify quality gaps
6. Identify root causes of gaps
7. Improve process performance
8. Control and fine-tune
9. Start again; the journey is the destination…
Widely used organization-wide systematic approaches:
• Total Quality Management (TQM)
• ISO 9000 certification
• Six Sigma (including DMAIC)
• Malcolm Baldrige and EFQM approaches

Figure 14.1 Improving service quality and productivity.

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Service quality, productivity, and profitability

- Quality and productivity are twin paths to creating value for both customers and companies
- Quality focuses on the benefits created for customers; productivity addresses financial costs incurred by the firm
  - If service processes are more efficient and increase productivity, this may not result in better quality experience for customers
  - Getting service employees to work faster to increase productivity may sometimes be welcomed by customers, but at other times feel rushed and unwanted
- Marketing, operations and human resource managers need to work together for quality

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Improving Service Quality and Productivity

14.2

Be familiar with the different perspectives of service quality.

Different perspectives of service quality

IMPROVING SERVICE QUALITY AND PRODUCTIVITY

Dimensions of Service Quality

Tangibles:
Reliability: Dependable and accurate performance
Responsiveness: Promptness; helpfulness
Assurance: Competence, courtesy, credibility, security
Empathy: Easy access, good communication, understanding of customer

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Improving Service Quality and Productivity

14.3

Demonstrate how to use the Gaps Model for diagnosing and addressing service quality problems.

The Gaps Model

Suggestions for Closing the 6 Service Quality

Types of Quality Gap	Proposed Solutions
Gap 1: The Knowledge Gap	*Suggestion: Educate management about what customers expect* • Increase interactions between customers and management. • Facilitate and encourage communication between frontline employees and management. • Implement an effective customer feedback system that includes satisfaction research, complaint content analysis and customer panels. • Sharpen market research procedures, including questionnaire and interview design, sampling, and field implementation, and repeat research studies once in a while.
Gap 2: The Policy Gap	*Suggestion: Establish the right service processes and specify standards* • Get the customer service processes right: o Use a rigorous, systematic, and customer-centric process for designing and redesigning customer service processes. o Standardize repetitive work tasks to ensure consistency and reliability by substituting hard technology for human contact and improving work methods (soft technology). • Develop tiered service products that meet customer expectations: o Consider premium, standard, and economy-level products to allow customers to self-segment according to their needs, or o Offer customers different levels of service at different prices. • Set, communicate, and reinforce measurable customer-oriented service standards for all work units: o Establish for each step in service delivery a set of clear service quality goals that are challenging, realistic, and explicitly designed to meet customer expectations. o Ensure that employees understand and accept goals, standards, and priorities.

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The Gaps Model

Suggestions for Closing the 6 Service Quality Gaps (3)

Gap 3: The Delivery Gap	*Suggestion: Ensure that performance meets standards that are based on customer needs and expectations* • Ensure that customer service teams are motivated and able to meet service standards: o Improve recruitment with a focus on employee—job fit; select employees for the abilities and skill needed to perform their job well. o Train employees on the technical and soft skills needed to perform their assigned tasks effectively, including interpersonal skills, especially for dealing with customers under stressful conditions. o Clarify employee roles and ensure that employees understand how their jobs contribute to customer satisfaction; teach them about customer expectations, perceptions, and problems. o Build cross-functional service teams that can offer customer-centric service delivery and problem resolution. o Empower managers and employees in the field by pushing decision-making power down the organization. o Measure performance, provide regular feedback, and reward customer service team performance as well as individual employees and managers or attaining quality goals. • Install the right technology, equipment, support processes, and capacity: o Select the most appropriate technologies and equipment for enhanced performance. o Ensure that employees working on internal support jobs provide good service to their own internal customer, the frontline personnel. o Balance demand against productive capacity. • Manage customers for service quality: o Educate customers so that they can perform their roles and responsibilities in service delivery effectively.

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The Gaps Model

Suggestions for Closing the 6 Service Quality Gaps (3)

Types of Quality Gap	Proposed Solutions
Gap 4: The Communications Gap	*Suggestion: Close the internal and external communications gaps by ensuring that communications promises are realistic and correctly understood by customers* • Educate managers responsible for sales and marketing communications about operational capabilities: o Seek inputs from frontline employees and operations personnel when new communications programs are being developed. o Let service providers preview advertisements and other communications before customers are exposed to them. o Get sales staff to involve operations staff in face-to-face meetings with customers. o Develop internal educational and motivational advertising campaigns to strengthen understanding and integration among the marketing, operations, and human resource functions, and to standardize service delivery across different locations. • Align incentives for sales teams with those of service delivery teams. This will avoid the problem where the sale teams focus exclusively on generating sales (e.g., through overpromising) and neglect customer satisfaction (e.g., through disappointed expectations). • Ensure that communications content sets realistic customer expectations. • Be specific with promises and mange customers' understanding of communication content: o Pre-test all advertising, brochures, telephone scripts, and website content prior to external release to see if target audience interprets them as the firm intends (if not, revise and retest). Make sure that the advertising content reflects those service characteristics that are most important to customers. Let them know what is and is not possible, and why. o Identify and explain, in real time, the reasons for shortcomings in service performance, highlighting those that cannot be controlled by the firm. o Document beforehand what tasks and performance guarantees are included in an agreement or contract. After the completion of the work, explain what work was performed in relation to a specific billing statement.

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The Gaps Model

Suggestions for Closing the 6 Service Quality Gaps (4)

Gap 5: The Perception Gap	*Suggestion: Tangibilize and communicate the service quality delivered* • Make service quality tangible and communicate the service quality delivered: o Develop service environments and physical evidence cues that are consistent with the level of service provided. o For complex and credence services, keep customers informed during service delivery on what is being done, and give debriefings after the delivery so that customers can appreciate the quality of service they received. o Provide physical evidence (e.g., for repairs, show customers the damaged components that were removed).
Gap 6: The Service Gap	*Suggestion: Close gaps 1 to 5 to consistently meet customer expectations* • Gap 6 is the accumulated outcome of all the preceding gaps. It will be closed when Gaps 1 to 5 have been addressed.

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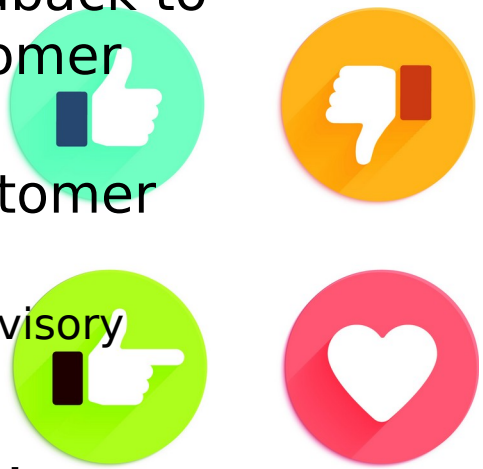
14.4

Differentiate between hard and soft measures of service quality.

Hard and soft measures of service quality

- Soft measures—not easily observed, must be collected by talking to customers, employees or others
  - Provide direction, guidance and feedback to employees on ways to achieve customer satisfaction
  - Can be quantified by measuring customer perceptions and beliefs
    - e.g., SERVQUAL, surveys, and customer advisory panels



- Hard measures—can be counted, timed or measured through audits
  - Typically operational processes or outcomes
  - Standards often set with reference to percentage of occasions on which a particular measure is achieved

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14.5

Explain the common objectives of effective customer feedback systems.

Objectives of effective customer feedback systems

- Assessment and benchmarking of service quality and performance
- Customer-driven learning and improvements
- Creating a customer-oriented service culture

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14.6

Describe key customer feedback collection tools.

Customer feedback collection tools

- Total market surveys
- Annual surveys
- Transactional surveys
- Service feedback cards
- Mystery shopping
- Unsolicited customer feedback
- Focus group

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Customer feedback collection tools

Collection Tools	Level of Measurement: Firm	Level of Measurement: Process	Level of Measurement: Transaction Specific	Actionable	Representative, Reliable	Potential for Service Recovery	Firsthand Learning	Cost-effectiveness
Total market survey (including competitors)	●	○	○	○	●	○	○	○
Annual survey on overall satisfaction	●	◑	○	○	●	○	○	○
Transactional survey	●	●	◑	◑	●	○	○	○
Service feedback cards	◑	●	●	◑	◑	●	◑	●
Mystery shopping	○	◑	●	●	○	○	◑	○
Unsolicited feedback (e.g., complaints)	○	◑	●	●	○	●	◑	●
Focus group discussions	○	◑	●	●	○	◑	●	◑
Service reviews	○	◑	●	●	○	●	●	◑

Legend: ● meets requirements fully; ◑ moderately; ○ hardly at all

SOURCE

Adapted from Jochen Wirtz and Monica Tomlin, "Institutionalizing Customer-driven Learning through Fully Integrated Customer Feedback Systems," *Managing Service Quality* 10, no. 4 (2000): 210.

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Customer feedback collection tools

Analysis, Reporting and Dis
tion of Customer Feedback

- Choosing the relevant feedb
  tools and collecting custome
  feedback is meaningless if t
  information is not passed ba
  to the relevant parties to take action
- Reporting system needs to deliver feedback to frontline staff, process owners, branch/department managers and top management
- Three types of performance reports:
  - Monthly Service Performance Update
  - Quarterly Service Performance Review
  - Annual Service Performance Report

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14.7

Be familiar with hard measures of service quality and control charts.

Hard measures of service quality and control charts

- Service quality indexes
  - Embrace key activities that have an impact on customers
- Control charts to monitor a single variable
  - Offer a simple method of displaying performance over time against specific quality standards
  - Enable easy identification of trends
  - Are only good if data on which they are based are accurate

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14.8

Select suitable tools to analyze service problems.

Tools to analyze service problems

- Fishbone diagram
  - Cause-and-effect diagram to identify potential causes of problems
- Pareto Chart
  - Separating the trivial from the important. Often, a majority of problems is caused by a minority of causes (i.e., the 80/20 rule)
- Blueprinting
  - Visualization of service delivery, identifying points where failures are most likely to occur

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Tools to analyze service problems

Cause-and-Effect Chart for Flight Departure Delays

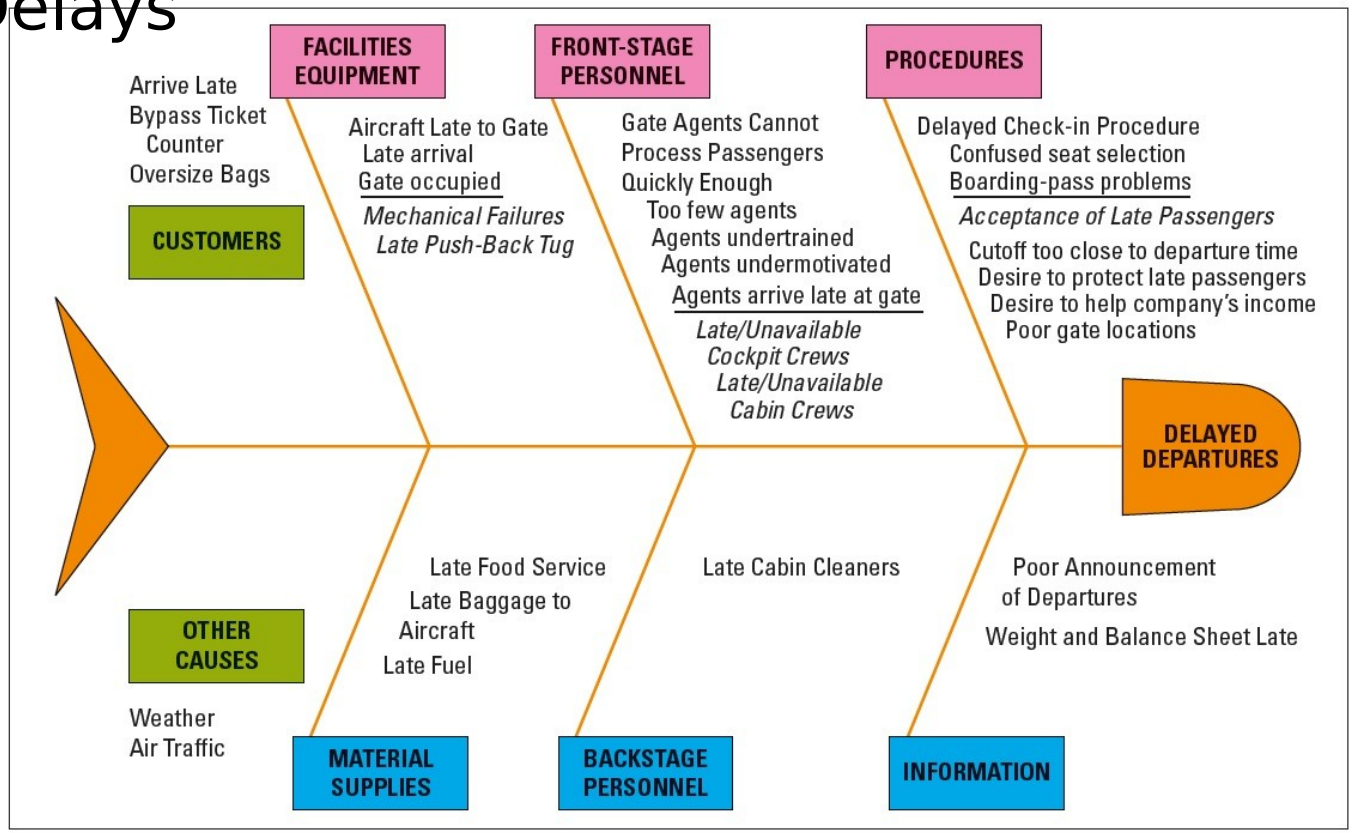

Figure 14.13 Cause-and-effect chart for flight departure delays.

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Tools to analyze service problems

Pareto analysis of causes of flight departure delays.

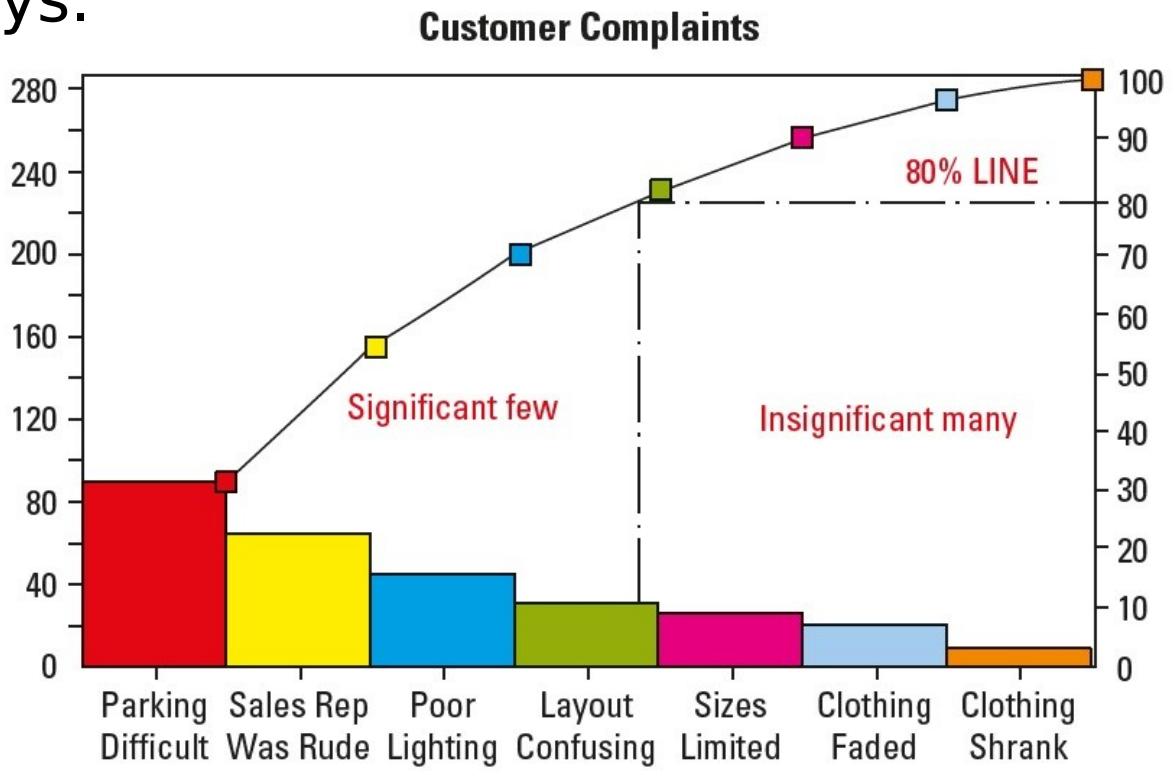

Figure 14.14 Pareto analysis of causes of flight departure delays.

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Improving Service Quality and Productivity

14.9

Understand return on quality and determine the optimal level of reliability.

Return on quality and the optimal level of reliability

- Assess costs and benefits of quality initiatives
  - ROQ approach is based on four assumptions:
    - Quality is an investment
    - Quality efforts must be financially accountable
    - It's possible to spend too much on quality
    - Not all quality expenditures are equally valid
  - Implication: Quality improvement efforts may benefit from being related to productivity improvement programs

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Return on quality and the optimal level of reliability

- To see if new quality improvement efforts make sense, determine costs and then relate to anticipated customer response
- Determine optimal level of reliability
  - Diminishing returns set in as improvements require higher investments
  - Know when improving service reliability becomes uneconomical

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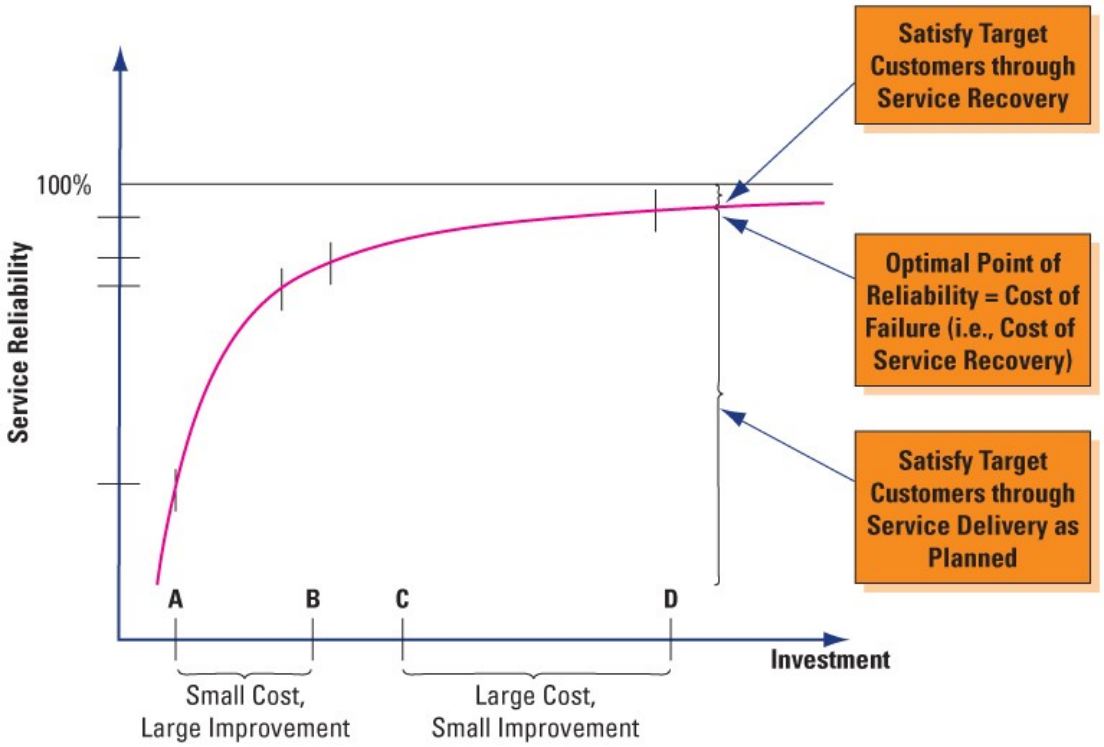
Return on quality and the optimal level of reliability

When Does Improving Service Reliability Become Uneconomical ?



Assumption: Customers are equally (or even more) satisfied with the service recovery than with a service that is delivered as planned.

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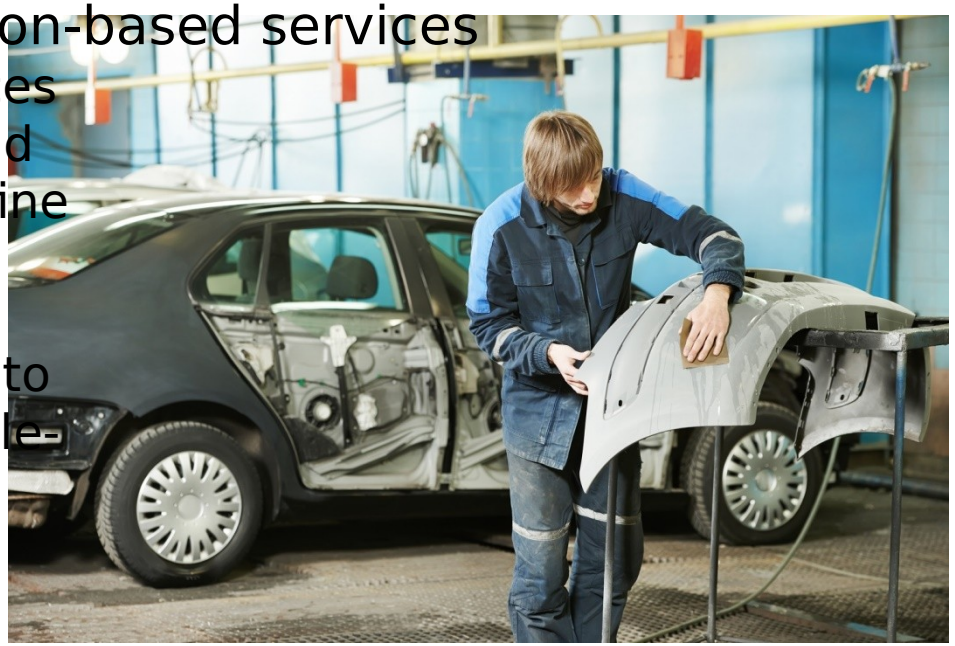
Improving Service Quality and Productivity

14.10

Define and measure service productivity.

Define and measure service productivity

- Productivity measures amount of output produced relative to the amount of inputs.
- Improvement in productivity means an improvement in the ratio of outputs to inputs.
- Intangible nature of many service elements makes it hard to measure productivity of service firms, especially for information-based services
  - Difficult in most services because both input and output are hard to define
  - Relatively simpler in possession-processing services as compared to information- and people-processing services



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14.11

Understand the difference between productivity, efficiency, and effectiveness.

Productivity, efficiency, and effectiveness

- Efficiency: involves comparison to a standard, usually time-based (e.g., how long employee takes to perform specific task)
  - Problem: focus on inputs rather than outcomes
  - May ignore variations in service quality/value
- Productivity: involves financial value of outputs to inputs
  - Consistent delivery of outcomes desired by customers should command higher prices
- Effectiveness: measures extent to which firm meets goals
  - Cannot consider productivity and customer satisfaction

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Improving Service Quality and Productivity

14.12

Recommend the key methods to improve service productivity.

Improving service productivity

Generic Productivity Improvement Strategies

- Typical strategies to improve service productivity
  - Careful control of costs at every step in process
  - Reduction of wasteful use of materials or labor
  - Teaching employees how to work more productively
  - Providing employees with equipment and databases to work faster and to a higher quality
  - Broadening variety of tasks that service worker can perform
  - Installing expert systems that allow paraprofessionals to take on work previously performed by professionals who earn higher salaries

- Although improving productivity can be approached incrementally, major gains often require redesigning entire processes

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Improving service productivity

Customer-driven Ways to Improve Productivity

- Change timing of customer demand
  - By shifting demand away from peaks, managers can make better use of firm's productive assets and provide better service
- Encourage use of lower cos
  - Get customers to self-serve
  - Encourage customers to obtai information and buy from firm corporate Websites
- Ask customers to use third parties
  - Delegate delivery of supplementary service elements to intermediary organizations

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Improving Service Quality and Productivity

14.13

Know how productivity improvements impact quality and value.

How Productivity Improvements Impact Quality

- Front-stage productivity enhancements are especially visible in high contact services
  - Some improvements only require passive acceptance, while others require customers to change behavior
  - Must consider impacts on customers and address customer resistance to changes
- Backstage changes may impact customers
  - Keep track of proposed backstage changes, and prepare customers for them
    - e.g., new printing peripherals may affect appearance of bank statements

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How Productivity Improvements Impact Quality

- A Caution on Cost Reduction Strategies
  - Most attempts to improve service productivity seek to eliminate waste and reduce labor costs and does not involve new technology
  - Reducing staff means workers try to do several things at once and may perform each task poorly
  - Better to search for service process redesign opportunities that lead to
    - Improvements in productivity
    - Simultaneous improvement in service quality

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Improving Service Quality and Productivity

14.14

Understand how to integrate all the tools to improve the quality and productivity of customer service processes.

Integrating all the tools

An integrated nine-step approach to customer service process improvement (1)

Step	Objectives	Potential Tools to Apply
1	Determine priority processes for improvement and redesign.	• Use frequency count of process occurrence and number of complaints per process to identify priority processes. • Use prioritization matrix (ease of implementation vs potential business impact) to identify "low-hanging fruits" with which to start a service improvement initiative.
2	For the shortlisted processes, set targets for (1) customer satisfaction, (2) defects, (3) cycle time, and (4) productivity improvements.	• Benchmark internally, against competition, the best in class and world class to determine targets for all four priorities. • Decide the target level of performance (e.g., do you aim to be the best in your industry or to just catch up with industry average on those four priorities?). • Use a project charter to formalize the objectives of this customer service process redesign project.
3	Identify key elements of quality in priority service processes and determine customer needs and expectations.	• Use blueprinting to identify all touch points of a customer journey and the line of visibility to understand the customer view of a process. • For each touch point, determine what quality means in the customer's eyes (e.g., use the five dimensions of service quality [see Chapter 2] to cover all important areas, review customer feedback [including content analysis of compliments and complaints to understand drivers of customer delight and disgust], and conduct focus groups).

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Integrating all the tools

An integrated nine-step approach to customer service process improvement (2)

4	Assess process performance.	• Review hard, operational process measures (e.g., cycle times, customer waiting times, one-time resolution, etc.). • Measure customer perceptions of process performance (e.g., process-specific customer satisfaction surveys). • Interview front-line employees to obtain their views on what works, what doesn't work, and what needs urgent improvement.
5	Identify performance shortfalls and quality gaps.	• Map customer needs and wants from the process against process performance measures to determine important performance and quality gaps. • Identify the main performance gaps (e.g., map frequency counts of service failures and/or complaints on service blueprints to understand where exactly service processes fail).
6	Identify root causes of quality gaps.	• Use the Gaps Model to capture all possible sources of gaps in customers' service quality perceptions. • Use TQM tools to drill down on specific gaps (e.g., use Pareto charts to understand which fail points to focus on; use fishbone diagrams to identify the exact causes of key fail points; use Pareto charts again to identify the main root causes to be designed out of the processes).

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Integrating all the tools

An integrated nine-step approach to customer service process improvement (3)

7	Improve process performance.	• Use prescriptions from the Gaps Model to close each of the six gaps (see Table 14.1). • Use customer service design and redesign tools. (See Chapter 8, which discusses how fail points may be designed out of the system through the use of poka yokes.) • Plan service recovery for fail points that cannot be designed out of the system (i.e., make it proactive, pre-planned, trained, and empowered; see Chapter 13)
8	Control and continuously fine tune the process to improve it further.	• Monitor the performance of the redesigned process using operational measures and customer feedback. • Make it a routine process at the new, high level of performance. • Ask the process owner to fine tune the process through incremental improvements (e.g., use Kaizen or other tools to get the process team to monitor and continually improve the process it is responsible for).
9	Start again; the journey is the destination . . .	• Create a culture of customer centricity, process improvement, and change by continuously working and redesigning customer service processes; become a customer-driven learning organization.

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14.15

Explain how TQM, ISO 9000, Six Sigma, and the Malcolm Baldrige and EFQM approaches relate to managing and improving service quality and productivity.

The service recovery paradox

- TQM can help organizations to attain service excellence, increase productivity, and create value continuously through innovative process improvements.
- ISO 9000 Certification comprises requirements, definitions, guidelines, and related standards to provide an independent assessment and certification of a firm's quality management system.
- Six Sigma is favoured by service firms that have high-volume processes to reduce defects and cycle times and improve productivity.
- The Malcolm Baldrige National Quality Award aims to promote the best practices in quality

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Thank You.